

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Establish
Policies and Rules to Ensure Reliable, Long-Term
Supplies of Natural Gas to California.

Rulemaking 04-01-025
(Filed January 22, 2004)

**ADMINISTRATIVE LAW JUDGE'S RULING
SETTING A SHORTENED SCHEDULE TO CONSIDER THE
EMERGENCY PETITION OF PACIFIC GAS AND ELECTRIC COMPANY
FOR MODIFICATION OF DECISION 04-01-047**

In a petition filed September 13, 2005, Pacific Gas and Electric Company (PG&E) requests that the Commission authorize, on an emergency basis, a modification of Decision (D.) 04-01-047,¹ which among other things approved the current version of PG&E's Core Procurement Incentive Mechanism (CPIM). PG&E asserts that the requested modification would allow the company to undertake an expanded level of hedging of its natural gas purchases on behalf of its core gas customers. PG&E argues that this emergency action is needed to protect its core gas customers from natural gas price spikes in the coming winter and in subsequent winters. PG&E requests that the Commission vote on this matter at its public meeting on September 22, 2005.

¹ That decision was in R.02-06-041. PG&E states that he has served its petition on the parties to that proceeding. We are serving this ruling on those parties, as well as the parties in R.04-01-025.

PG&E's proposal would affect the operation of the CPIM not only during the coming winter, but also during the four following years. PG&E states that this would be a limited, multi-year hedging plan and that it intends to file shortly an application to approve a larger-scale hedging program and a more permanent change in gas purchase policy for PG&E's core customers. Although PG&E prefers the adoption of its limited multi-year proposal, in the alternative it asks the Commission to adopt the requested changes for the 2005-2006 winter period. It asks for expedited treatment of the full proposal.

Accompanying PG&E's petition is a motion to file under seal the petition's addendum, which includes PG&E's specific hedging proposal. In that motion, PG&E reports that it has shared a copy of the addendum, on a confidential basis, with the Office of Ratepayer Advocates (ORA) and The Utility Reform Network (TURN), and that it "will also file at a later date a motion for protective order and a proposed protective order that would allow non-market participants who sign the nondisclosure documents to have access to the confidential, commercially sensitive, proprietary information."

Because of the potential for significant price volatility through this winter particularly in the wake of Hurricane Katrina, we are prepared to move forward with consideration of PG&E's underlying proposal on an expedited basis. However, due to the late date on which the petition was filed, we will modify PG&E's procedural proposal in the following respects:

Scope of Expedited Consideration

The urgent need to protect core customers during the approaching winter months supports expedited consideration of hedging options and incentive mechanism adjustments for this winter. However, a proposal to adopt strategies for the next several years raises factual and policy issues

that cannot adequately be explored on an expedited basis. For this reason, we set an expedited schedule for consideration of PG&E's alternative proposal for the coming winter of 2005-2006, and can review the company's plans for multi-year hedging authorization when it files its separate application for consideration of longer-term changes.

Although PG&E advocates retaining its core procurement incentive mechanism, another possibility is merely suspending its core procurement incentive mechanism effective immediately through March 31, 2006, and starting its new yearly cycle as of April 1, 2006 based upon its proposal in its separate application. For this interim period prior to April 1, 2006, there could be balancing account treatment with no benefits or penalties to the shareholders. In this way, the Commission would remove the disincentives that the current mechanism may have against hedging in the extremely volatile circumstances due to Hurricane Katrina, but the Commission would not direct the utilities as to what hedging strategy to utilize. Therefore, the utilities could use their best judgment based on market circumstances without the possibility of unreasonably high risks or unreasonably high rewards.

In addition, however, we want to explore the implications of PG&E's proposal, as well as the balancing account alternative, for the state's other largest regulated natural gas utilities: San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SoCalGas), and Southwest Gas Company (Southwest). We will direct those utilities to file comments reflecting on whether or not the Commission should act to change either their procurement practices or related incentive mechanisms for the winter of 2005-2006.

Confidentiality and Access to the Addendum

As an initial matter, we grant PG&E's motion to file the addendum under seal. The addendum includes PG&E's Emergency Core Gas Hedging Plan. PG&E is a major purchaser of natural gas within the region. It is reasonable to expect that gas marketers could gain advantage from knowing PG&E's specific hedging plans that could lead to higher core customer costs. However, considering the very abbreviated schedule that we will adopt, there is too much uncertainty as to how and when non-market participants other than ORA and TURN will gain access to the addendum. Thus, we will require two things. First, PG&E shall file a proposed protective order no later than tomorrow (September 15, 2005). Second, the assigned administrative law judge will hold a prehearing conference this Friday, September 16, 2005, at 10 a.m. at the Commission offices in San Francisco to identify parties in need of access to the addendum and to determine that a mechanism is in place for rapid exchange of information. PG&E shall attend the prehearing conference. Any other party interested in having access to the addendum must also attend.

Pursuant to Rule 87 of the Commission's Rules of Practice and Procedure, I am waiving otherwise applicable time periods for notice and comment in order to facilitate the issuance of a timely decision.

Schedule

PG&E had requested a Commission vote no later than September 22, 2005. Because of the lateness of the filing, and unresolved issues concerning access to the addendum, it is not feasible to have a decision by that date. In order to provide an opportunity for a decision by the Commission as early as October 6, 2005, we adopt the schedule set forth below.

IT IS RULED that the following schedule applies:

September 15, 2005	PG&E Proposes a Protective Order
September 16, 2005	Prehearing Conference in the State Office Building, 505 Van Ness Avenue, San Francisco, at 10 a.m.
September 19, 2005	Comments from SDG&E, SoCalGas, and Southwest and from PG&E on alternative proposal
September 21, 2005	Opening Comments on Proposals
September 23, 2005	Reply Comments

Dated September 14, 2005, at San Francisco, California.

/s/ STEVEN WEISSMAN

Steven Weissman
Administrative Law Judge

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of the original attached Administrative Law Judge's Ruling Setting a Shortened Schedule to Consider the Emergency Petition of Pacific Gas and Electric Company for Modification of Decision 04-01-047 on all parties of record in this proceeding or their attorneys of record and also on R.02-06-041.

Dated September 14, 2005, at San Francisco, California.

/s/ TERESITA C. GALLARDO

Teresita C. Gallardo

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

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If specialized accommodations for the disabled are needed, e.g., sign language interpreters, those making the arrangements must call the Public Advisor at (415) 703-2074,

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TTY 1-866-836-7825 or (415) 703-5282 at least three working days in advance of the event.